

**ORIGINAL**

**NORTH CENTRAL SPECIAL EDUCATION  
COOPERATIVE,  
A SPECIAL REVENUE FUND OF GROTON  
SCHOOL DISTRICT NO. 6-3**

***FINANCIAL STATEMENTS  
JUNE 30, 2004***

**NORTH CENTRAL SPECIAL EDUCATION COOPERATIVE,  
A SPECIAL REVENUE FUND OF GROTON  
SCHOOL DISTRICT NO. 6-3**

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**NORTH CENTRAL SPECIAL EDUCATION COOPERATIVE, A SPECIAL  
REVENUE FUND OF GROTON SCHOOL DISTRICT NO. 6-3  
COOPERATIVE OFFICIALS  
JUNE 30, 2004**

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**Board Members:**

Roger Rix

Todd Osterman

Marc Johnson

Steve Schaller

Carroll Dean

Linda Thurston

Allen Walter

**Advisory Board Members:**

Gene Harstad

Joel Druley

Randy Barondeau

Larry Klapperich

Roger Youngman

Ray Sauerwein

Terry VanderVorst

**Director:**

Leon Tobin

**Business Manager:**

Mike Weber



CPAs & BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT

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To the School Board  
**North Central Special Education Cooperative, a Special Revenue Fund  
of Groton School District No. 6-3**  
Aberdeen, South Dakota

We have audited the accompanying financial statements of North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3, as of and for the year ended June 30, 2004, as shown on pages 4 and 5, which collectively comprise a portion of North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3's governmental activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3, as of June 30, 2004, or the changes in its financial position for the year then ended.

North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3 has not presented a Management Discussion and Analysis that the new financial reporting model has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

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As described in Note 1, the District has implemented certain elements of a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended and interpreted, as of July 1, 2003.

The budgetary comparison information on pages 11 through 13 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2005, on our consideration of the North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Erik Sully LLP".

Aberdeen, South Dakota  
November 23, 2005

**NORTH CENTRAL SPECIAL EDUCATION COOPERATIVE, A SPECIAL  
REVENUE FUND OF GROTON SCHOOL DISTRICT NO. 6-3  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2004**

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**ASSETS:**

Cash and Cash Equivalents	
101 Cash/Cash & Deposits	\$ 35,048
105 Interest Bearing Accounts	385,882
107 Restricted Cash in Bank	<u>32,337</u>
TOTAL ASSETS	<u>\$ 453,267</u>

**LIABILITIES AND FUND BALANCES:**

Liabilities:

404 Contracts Payable	<u>\$ 35,048</u>
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Fund Balances:

701 Reserved for Unemployment	32,337
704 Unreserved Fund Balances:	
704.5 Undesignated	<u>385,882</u>
Total Fund Balances	<u>418,219</u>

TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 453,267</u>
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**NORTH CENTRAL SPECIAL EDUCATION COOPERATIVE, A SPECIAL  
REVENUE FUND OF GROTON SCHOOL DISTRICT NO. 6-3  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2004**

**Revenues:**

1500 Earnings on Investments and Deposits	
1510 Investment Earnings	\$ 953
1900 Other Revenue from Local Sources:	
1943 Contracted Educational Services (SDCL13-15)	61,700
1990 Other Local Revenue	952
Total Revenue from Local Sources	<u>63,605</u>
4000 Revenue from Federal Sources:	
4100 Grants-in-Aid:	
4175 Special Education, IDEA, Part B, Section 611	285,059
4186 Special Education, Preschool Grants	20,680
4900 Other Federal Revenue	44,966
Total Revenue from Federal Sources	<u>350,705</u>
Total Revenue	<u>414,310</u>

**Expenditures:**

1200 Special Programs:	
1226 Early Childhood Programs	63,473
Total Special Programs	<u>63,473</u>
2000 Support Services:	
2100 Pupils:	
2142 Psychological Testing Services	86,488
2152 Speech Pathology Services	126,180
2200 Support Services - Instructional Staff:	
2211 Service Area Direction	69,944
2300 Support Services - General Administration:	
2329 Other Executive Admn. Services	27,637
2500 Support Services - Business:	
2529 Other Fiscal Services	27,013
Total Support Services	<u>337,262</u>
4000 Nonprogrammed Charges:	
4500 Early Retirement Payments	16,834
Total Non Programmed Charges	<u>16,834</u>
Total Expenditures	<u>417,569</u>
Excess of Revenue Over (Under) Expenditures	(3,259)
Fund Balance - Beginning of year	<u>421,478</u>
Fund Balance - End of year	<u>\$ 418,219</u>

**NORTH CENTRAL SPECIAL EDUCATION COOPERATIVE, A SPECIAL  
REVENUE FUND OF GROTON SCHOOL DISTRICT NO. 6-3**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3 (the Cooperative) conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity:

The reporting entity of the Cooperative was formed to provide special education services to school districts which otherwise would not be able to provide these services. The following school districts participated in the North Central Special Education Cooperative for the fiscal year ended June 20, 2004: Bristol, Conde, Doland, Elm Valley, Groton, Northwestern, and Warner. The advisory board is made up of the superintendents from these school districts.

Because the advisory board of the Cooperative is comprised of appointed rather than elected officials, the Cooperative is not considered a separate legal entity. As a result, the Cooperative is accounted for as a separate fund of the Groton School District (the School District), the current oversight board designated by the Cooperative.

The funds included in this report are controlled by or dependent upon the oversight board.

Basis of Presentation:

On June 10, 1999, the Governmental Accounting Standards Board (GASB) issued Statement of Governmental Accounting Standards No. 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (No. 34). GASB No. 34 amended accounting principles generally accepted in the United States (USGAAP) by establishing a new reporting model for the annual financial reports for state and local governments, including states, cities, towns, villages, counties, school districts and special purpose governments. Implementation of GASB No. 34 results in a lack of comparability to those presented in prior years. The new reporting model significantly changes the focus of the required financial statements from a focus on fund types to a focus on major funds and on government-wide information. These financial statements do not include the government-wide statements as required by accounting principles accepted in the United States of America.

*Fund Financial Statements:*

Each fund is considered to be a separate accounting entity and is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.



## NOTES TO FINANCIAL STATEMENTS

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The funds of the financial reporting entity are described below within their respective fund types:

### **Governmental Funds:**

The North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3, is the only fund reported in the financial statements. Classified as a Governmental Fund, the Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

b. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

### **Measurement Focus:**

#### *Fund Financial Statements:*

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental fund types.

### **Basis of Accounting:**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

When both restricted and unrestricted resources are available for use, it is the Cooperative’s policy to use restricted resources first, then unrestricted resources as they are needed.

c. Equity Classifications:

#### *Fund Financial Statements:*

Governmental fund equity is classified as fund balance, and may distinguish between “Reserved” and “Unreserved” components. The Cooperative maintains reserved fund balance for unemployment benefits.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 2 - DEPOSITS AND INVESTMENTS

The School District follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The School District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost plus interest, if the account is of the add-on type.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The School District's policy is to credit all income from investments to the Special Revenue Fund.

The actual bank balances at June 30, 2004 were as follows:

Insured (FDIC/NCUA)	\$ 137,102
Uninsured, collateral jointly held by state's/ School's agent in the name of the state and the pledging financial institution.	350,556
Uninsured, uncollateralized	-
Total Deposits	<u>\$ 487,658</u>
 The School District's carrying amount of deposits at June 30, 2004 was	 <u>\$ 485,604</u>

Investments -- In general, SDCL 4-5-6 permits school funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of June 30, 2004, and during the year then ended, the Cooperative did not own any investments.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 3 - PROPERTY TAXES

Property taxes are not levied by the North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3.

### NOTE 4 - EARLY RETIREMENT

Early retirement benefits for governmental funds are liquidated from the Cooperative's special revenue fund. During the year ended June 30, 2004, the Cooperative paid \$16,834 in early retirement benefits. No future obligation exists to the Cooperative as of June 30, 2004.

### NOTE 5 - RETIREMENT PLAN

All employees, working more than 20 hours per week during the school year and those with more than 6 months of service, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$11,720, \$12,053, and \$9,516, respectively, equal to the required contributions each year.

### NOTE 6 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2004, the School District managed its risks relating to the activities of the North Central Special Education Cooperative as follows:

#### Employee Health Insurance:

The School District joined the Association of School Boards of South Dakota Pool, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Cooperative pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage provides a deductible of \$300 per person up to \$500 per family. The plan also provides for coinsurance of 80 percent up to \$5,000. The coverage also includes a \$1,000,000 lifetime maximum payment per person.

## NOTES TO FINANCIAL STATEMENTS

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The School District does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

### Liability Insurance:

The School District joined the Association of School Boards of South Dakota Pool, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Cooperative pays an annual premium to the pool to provide coverage for torts; theft of nor damage to property, and errors and omissions of public officials.

The agreement with the Association of School Boards of South Dakota Pool provides that the above coverage's will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$50,000 to the upper limit. The Cooperative carries a \$500 deductible for the liability insurance coverage.

The School District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

### Worker's Compensation:

The School District participates, with several other educational units and related organizations in South Dakota, in the Associated School Boards of South Dakota Workers' Compensation Fund Pool which provided workers' compensation insurance coverage for participating members of the pool. The Cooperative is responsible for payment of a premium to the insurance pool along with other pool participants. The school district may also be responsible for additional assessments in the event the pool is determined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs. The pool provides loss coverage to all participants through pool retained risk retention and through insurance coverage purchased by the pool in excess of the retained risk. For the year ended June 30, 2004, the pool's retained risk was \$250,000 per occurrence with additional insurance purchased from a private insurance company for an additional \$750,000 for total coverage of \$1,000,000 per occurrence. There was no additional assessment charged to pool members for the year ended June 30, 2004.

### Unemployment Benefits:

The Cooperative is a fund of the Groton School District which has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. The Cooperative has reserved equity in the amount of \$32,337 for the payment to future unemployment benefits. At June 30, 2004, no claims for unemployment benefits will be filed in the next year.

## NOTE 7 - LITIGATION

At June 30, 2004 the Cooperative was not involved in any litigation.

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**NORTH CENTRAL SPECIAL EDUCATION COOPERATIVE,  
A SPECIAL REVENUE FUND OF GROTON  
SCHOOL DISTRICT NO. 6-3**

*REQUIRED SUPPLEMENTARY INFORMATION*

**NORTH CENTRAL SPECIAL EDUCATION, A SPECIAL REVENUE FUND OF  
GROTON SCHOOL DISTRICT NO. 6-3  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
			<u>(Budgetary Basis)</u>	<u>Positive (Negative)</u>
<b>Revenues:</b>				
1500 Earnings on Investments and Deposits	\$ 2,500	\$ 2,500	\$ 953	\$ (1,547)
1900 Other Revenue from Local Sources:				
1940 Services Provided Other LEAs	73,700	73,700	61,700	(12,000)
1990 Other	500	500	952	452
4000 Revenue from Federal Sources:				
4100 Grants-in-Aid:				
4150-4199 Restricted Grants-				
in-Aid Received from				
Federal Government				
Through the State	246,000	246,000	305,739	59,739
4900 Other Federal Revenue	40,000	40,000	44,966	4,966
Total Revenue	<u>362,700</u>	<u>362,700</u>	<u>414,310</u>	<u>51,610</u>
<b>Expenditures:</b>				
1200 Special Programs:				
1220 Programs for Special Education	80,720	80,720	63,473	17,247
2000 Support Services:				
2100 Pupils:				
2142 Psychological Services	97,870	97,870	86,488	11,382
2152 Speech Pathology Services	163,350	163,350	126,180	37,170
2200 Support Services - Instructional Staff:				
2210 Improvement of Instruction	71,930	71,930	69,944	1,986
2300 Support Services - General Administration:				
2320 Executive Administration	27,700	27,700	27,637	63
2500 Support Services - Business:				
2520 Fiscal Services	35,850	35,850	27,013	8,837
4000 Non-programmed Charges				
4500 Early Retirement Payments	-	16,850	16,834	16
Total Expenditures	<u>477,420</u>	<u>494,270</u>	<u>417,569</u>	<u>76,701</u>
Net Change in Fund Balances	(114,720)	(131,570)	(3,259)	(128,311)
Fund Balance - Beginning	-	421,478	421,478	-
FUND BALANCE - ENDING	<u>\$ (114,720)</u>	<u>\$ 289,908</u>	<u># \$ 418,219</u>	<u>\$ (128,311)</u>

**NORTH CENTRAL SPECIAL EDUCATION, A SPECIAL REVENUE FUND OF  
GROTON SCHOOL DISTRICT NO. 6-3  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2004**

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**1. BUDGETS AND BUDGETARY ACCOUNTING**

South Dakota Codified Law prescribes the budgetary procedures to be followed by the Cooperative as follows:

1. Prior to the first regular board meeting in May of each year the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except trust and agency funds.
6. After adoption by the school board, the operating budget is legally binding at the fund level and actual expenditures of each fund cannot exceed the amounts budgeted for that fund, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board.
10. Formal budgetary integration is employed as a management control device during the year for the special revenue fund. Formal budgetary integration is not employed for debt service funds, if any, because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Generally accepted accounting principles prescribe that budgetary information be presented for the General Fund and special revenue funds only.
11. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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### 2. BUDGETARY OVERDRAFTS

There were no budget overdrafts for the year ended June 30, 2004.

### 3. BUDGET RECONCILIATION

The Cooperative is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP) while the Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual are presented on the budgetary basis to provide meaningful comparison of actual results with the budget. The major difference between the budgetary basis and the GAAP basis is that all capital outlay expenditures are recorded with other functional expenses for budget purposes rather than as a separate line item for GAAP purposes. There is no effect on the net change in fund balance. Also, because there were no capital outlay expenditures incurred by the Cooperative during the year ended June 30, 2004, no differences exist.

# # # # #





CPAs & BUSINESS ADVISORS

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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To the Board of Directors  
North Central Special Education Cooperative, a Special Revenue Fund  
of Groton School District No. 6-3  
Brown County, South Dakota

We have audited the financial statements of the governmental activities of North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3, Brown County, South Dakota, as of and for the year ended June 30, 2004, which collectively comprise the North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3's, basic financial statements and have issued our report thereon dated November 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying auditor's comments as item number 2004-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

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### Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3, in a separate letter dated November 23, 2005.

This report is intended solely for the information and use of the governing board, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

*Eide Bailly LLP*

Aberdeen, South Dakota  
November 23, 2005

**NORTH CENTRAL SPECIAL EDUCATION, A SPECIAL REVENUE FUND  
OF GROTON SCHOOL DISTRICT NO. 6-3  
AUDITOR'S COMMENTS  
JUNE 30, 2004**

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STATUS OF PRIOR AUDIT RECOMMENDATIONS

There was a lack of segregation of duties in the revenue, expenditures, and payroll functions due to the size of the entity.

Current Status: This has not been corrected and is restated as current audit finding 2004-1.

CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Finding 2004-01 - There was a lack of segregation of duties in the revenue, expenditures, and payroll functions due to the size of the entity. (repeat condition)

A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

The lack of segregation of duties increases the possibility that errors in the accounting system would not be detected timely.

We recommend the North Central Special Education Cooperative, a Special Revenue Fund of Groton School District No. 6-3, develop internal accounting controls to prevent individuals from handling transactions from inception to completion.